# Crown Management Board of Saskatchewan

## Annual Report 1988

**Crown Investments Corporation of Saskatchewan**

89-04995

# CROWN MANAGEMENT BOARD OF SASKATCHEWAN

# ANNUAL REPORT 1988

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Crown Investments Corporation of Saskatchewan
2400 College Avenue
Regina, Saskatchewan
S4P 1C8

# LETTER OF TRANSMITTAL

Regina, Saskatchewan,
April 28, 1989

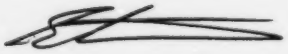
To Her Honour,
The Honourable Sylvia O. Fedoruk, O.C., S.O.M.,
Lieutenant Governor of the Province of Saskatchewan.

Madam:

I have the honour to submit herewith the eleventh annual report of Crown Investments Corporation of Saskatchewan for the year ended December 31, 1988 in accordance with **The Crown Corporations Act, 1978**. The consolidated financial statements are in the form approved by the Treasury Board and have been reported on by our auditors.

I have the honour to be, Madam,

Your obedient servant,



Eric Berntson,
Minister Responsible,
Crown Investments Corporation
of Saskatchewan.

# BOARD OF DIRECTORS

Hon. Grant Devine
Vice-Chairman

Hon. Eric Berntson
Minister Responsible

Hon. Bob Andrew

Hon. J. Gary Lane, Q.C.

Hon. Graham Taylor

Wolfgang Wolff, F.C.A.
Chairman

Harold Lane, Q.C.
Saskatoon

Frank Proto
Edmonton

Garnet K. Wells
Edmonton

# OFFICERS AND SENIOR MANAGEMENT

W. B. Gibson
President

T. A. Leier
General Counsel

H. E. McEwen
Director, Pensions & Benefits

I. A. Ellis
Director, Corporate Projects

R. C. McKenzie
Director, Corporate Projects

R. D. Rogers
Senior Vice-President

G. A. Mrazek
Director, Accounting Services

D. A. Marce
Secretary to the Board

D. G. Hughes
Director, Corporate Projects

# CHAIRMAN'S REPORT

The business world which exists today grows ever more complex and technically demanding. These attributes require that modern corporate managements constantly upgrade and expand the skill and knowledge required to compete in the business environment, both now and in the future. Nowhere is this more apparent than in Saskatchewan's commercial Crown corporations where Saskatchewan's human and corporate resources compete in provincial, national and international business arenas in a diverse range of industries.

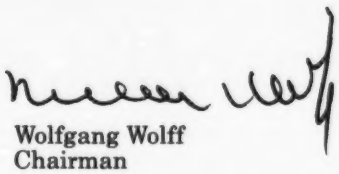
The Government of Saskatchewan recognizes this diversity and has given a mandate to the Crown Management Board of Saskatchewan to act as a liaison agency with the commercial Crown corporations. The Crown Management Board monitors and evaluates Saskatchewan's investments in commercial Crown corporations. More importantly, the Crown Management Board acts as a management resource corporation involved in the financial and operational activities of Crown corporations on both an individual as well as a consolidated level. It is recognized that the Government of Saskatchewan has a substantial investment in the corporations consolidated within the accompanying financial statements. These corporations also provide direct and indirect employment to thousands of Saskatchewan residents.

The Government of Saskatchewan's objective during the last several years has been to reduce its involvement in the business sector while simultaneously encouraging the development of new and expanded private investment in the Province. Crown Management Board has been actively involved in promoting this objective through the development of employment and investment opportunities for Saskatchewan people within our Province.

The past year was a successful one for the commercial Crown corporations resulting in Crown Management Board recording record net income and a strengthened balance sheet.

I would like to take this opportunity to thank each of the respective boards of directors and management teams of the Crown corporations as well as the Crown Management Board staff for their continued hard work and valuable contributions to the results recorded in this annual report. I would also like to recognize the significant contribution of Mr. Pat Hill, former chairman of Saskatchewan Forest Products Corporation, who passed away unexpectedly on January 29, 1989. His presence will certainly be missed.

April 14, 1989



Wolfgang Wolff
Chairman

# PRESIDENT'S REPORT

The current year's operating results reflect a record net income of $437 million for the Crown Management Board of Saskatchewan. These results are attributable in part to strengthening prices and increased demand for products and services offered by these Crown corporations and are also attributable to innovative and creative business strategies that have been implemented by the managements of the corporations. For instance, 1988 marked the fifth consecutive year that Saskatchewan Power Corporation has issued its Saskatchewan Power Corporation Savings Bonds to the Saskatchewan public. This year's record issue not only provided the capital required to fund a significant portion of that corporation's 1988 capital expenditures but also provided a unique exchangeability feature into Saskatchewan Oil and Gas Corporation common shares for almost one-half of the subscribing bondholders. In addition, the significant rise in the Canadian dollar during 1988 in relation to its American counterpart has not only reduced the interest costs of the consolidated group but has also been reflected in a reduction of the United States dollar denominated debt reflected in these financial statements. Managements of several of the corporations have taken advantage of the rise in the value of the Canadian dollar during 1988 by entering into currency and interest rate swap contracts on their foreign debt. This will ensure that potential future downward fluctuations in the Canadian dollar will neither adversely affect the corporations' foreign debt exposure nor the associated interest costs.

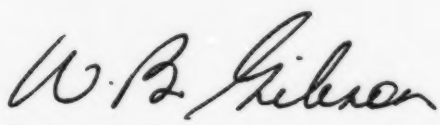
The current year was also one in which significant individual corporation achievements were recorded. Several of the corporations reported record net income and improved financial position at year end. In particular, Saskatchewan Power Corporation, Saskatchewan Telecommunications, Saskatchewan Government Insurance and Saskatchewan Mining Development Corporation all reported their highest annual net income ever during the current year. Potash Corporation of Saskatchewan did not have record net income during 1988 but did report a profit of $106 million, an increase of $127 million over 1987's $21 million loss.

Under our mandates of reducing the Government's involvement in the private sector and the creation of employment and investment opportunities, there were a number of accomplishments in 1988 including:

- the merger of Saskatchewan Mining Development Corporation and Eldorado Nuclear Limited to create Cameco - A Canadian Mining & Energy Corporation which is one of the world's largest uranium mining and processing companies;
- the sale of Saskatchewan Power Corporation's petroleum and natural gas properties to Saskatchewan Oil and Gas Corporation;
- the completion of construction and commencement of operations of the heavy oil upgrader in Regina;
- Weyerhaeuser Canada Ltd. commencing operations in their fine paper mill thus fulfilling one of the commitments from the 1986 sale of Prince Albert Pulp Company Ltd.;
- the formation of Westbridge Computer Corporation through the merger of various private sector companies with Crown owned assets and the subsequent public share issue;
- the creation of NorSask Forest Products Inc. through the sale of certain Meadow Lake Sawmill Ltd. assets to a consortium of employees and tribal councils in the Meadow Lake area;
- the sale of Saskatchewan Minerals' sodium sulphate and peat moss operations to private sector buyers.

To the many people who made our accomplishments possible, I extend my thanks.

April 14, 1989



William B. Gibson
President

# CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

| Resources | Utilities | Financial and Services | Major Subsidiaries and Investments |
|---|---|---|---|
| Potash Corporation of Saskatchewan | Saskatchewan Power Corporation | Saskatchewan Government Insurance | CIC Industrial Interests Inc. |
| Saskatchewan Forest Products Corporation | Saskatchewan Telecommunications | Saskatchewan Economic Development Corporation | Cameco - A Canadian Mining & Energy Corporation |
| Saskatchewan Mining Development Corporation (Inactive) | Saskatchewan Water Corporation | Saskatchewan Development Fund Corporation | Westbridge Computer Corporation |
| Saskatchewan Minerals (Inactive) | Saskatchewan Computer Utility Corporation (Inactive) | Saskatchewan Transportation Company | NewGrade Energy Inc. |
| | | Agricultural Development Corporation of Saskatchewan | Saskatchewan Oil and Gas Corporation |

Crown Investments Corporation of Saskatchewan is the legal name of the Corporation established by statute. The Corporation conducts its daily operations under the name Crown Management Board of Saskatchewan.

# 1988 FINANCIAL PERFORMANCE

Crown Investments Corporation of Saskatchewan (CIC) is a provincial Crown corporation, without share capital, operating under authority of **The Crown Corporations Act, 1978**. The Corporation is responsible for administering provincial government policy as it relates to those Crown corporations under its purview with particular emphasis on business efficiency and effective management. Crown corporations are designated as being within the CIC group by Order-in-Council. As at December 31, 1988 there were thirteen corporations so designated.

Each year the financial statements of CIC are consolidated with the aforementioned Crown corporations to provide the Legislature with financial information relating to the aggregate results of these corporations. For administrative purposes, CIC has grouped the corporations into three sectors: resources; utilities; financial and services. The corporations provide a wide variety of services and sell various commodities in both domestic and international markets. The diversified nature of the corporations within the consolidated group is such that the operating results can be affected by events and conditions occurring throughout the world.

## OVERVIEW

This is the eleventh annual report of Crown Investments Corporation of Saskatchewan. The report includes a consolidated statement of 1988 financial results of the Province's commercial Crown corporations and a brief comment on the performance of each corporation. Further narrative and financial information relating to each of the thirteen commercial Crown corporations is available in their individual annual reports.

## RESOURCE CORPORATIONS

### Potash Corporation of Saskatchewan (PCS)

PCS had net income of $106 million in 1988, an improvement of $127 million over 1987's loss of $21 million. Operating income before interest and taxes was $139 million, compared with $28 million in 1987 while sales revenue was $365 million compared to $256 million in 1987.

PCS's mining operations had an excellent year. A new record of 5.1 million tonnes was reached, more than half a million tonnes higher than the previous record production of 1987. New records for efficiency and costs were established in every division. Tonnes produced per person-shift worked have doubled since 1985 and the production cost per tonne has been reduced.

PCS also had a record year with sales of 4.7 million tonnes, exceeding the previous record established in 1987 by more than 50 thousand tonnes. The offshore market was particularly strong in 1988. Canpotex, the export sales corporation for six Saskatchewan potash producers, including PCS, sold more potash than in any previous year. The domestic market was characterized by consistent prices established in January 1988, following the signing of the antidumping suspension agreement between the United States Department of Commerce and the Canadian potash producers. Higher prices in the United States resulted in increased competition for Saskatchewan producers. United States producers not only increased production but also concentrated more on the domestic markets and less on export markets. Offshore producers began to ship more product to the United States as well.

### Saskatchewan Forest Products Corporation (SFPC)

SFPC produces a variety of lumber, plywood and treated wood products. Its production facilities include a sawmill at Carrot River and a plywood plant at Hudson Bay. The Corporation's Head Office is located in Prince Albert. In January 1989 it was announced that the Head Office would be moved to Hudson Bay.

In 1988, the loss was $1.3 million compared with a net income of $606 thousand in 1987. Lumber production decreased from the 1987 level as a result of a fire in February 1988 which destroyed the planer mill at the Carrot River mill site. Treated wood production decreased significantly as only material already in inventory was treated. Plywood production was comparable to 1987 production levels.

Several reforestation projects were completed during the year in the Carrot River area in co-operation with Forestry Canada. Plans are in place to continue similar reforestation projects in 1989.

### Saskatchewan Mining Development Corporation (SMDC)

On February 22, 1988, CIC, Canada Development Investment Corporation, the Government of Saskatchewan and the Government of Canada signed a Letter of Intent providing for the merger of SMDC and Eldorado Nuclear Limited (Eldorado). Enabling legislation was subsequently passed by both

Governments during the summer of 1988, and the final merger agreement was signed on October 5, 1988.

As part of the merger agreement, substantially all of the operating assets of SMDC and Eldorado, as well as certain working capital items relating to operations, were sold to Cameco - A Canadian Mining & Energy Corporation (Cameco) at fair market value. In exchange, SMDC and Eldorado received common shares and promissory notes from Cameco in amounts proportionate to ownership. In addition, Cameco assumed certain operating liabilities of SMDC and Eldorado. The total consideration given to SMDC included 6.15 million common shares and a $358 million promissory note. SMDC also received one Class B Share which will allow SMDC to exercise special voting rights regarding the location of the Cameco Head Office. At December 31, 1988, SMDC owned 61.5 per cent of the outstanding shares of Cameco, and Eldorado owned 38.5 per cent. Cameco repaid the promissory notes held by SMDC and Eldorado on December 29, 1988, using proceeds from a private debt issue.

In 1988, SMDC reported net income of $254.8 million which included $48.8 million from operations as well as a $206 million accounting gain on the issue of shares by Cameco.

### Saskatchewan Minerals

The sodium sulphate and peat moss divisions of Saskatchewan Minerals conducted normal operations during the months of January and February 1988. In March 1988, the assets relating to these two operating divisions were sold. On March 1, the operating assets relating to the sodium sulphate division were sold to Kam-Kotia Mines Ltd. of the Dickenson Group of Companies for $12.5 million. The operating assets of the peat moss division were sold to Premier Sask Inc., a wholly-owned subsidiary of Premier Cdn Enterprises Ltd., on March 24, 1988 for $3.4 million.

## UTILITY CORPORATIONS

### Saskatchewan Power Corporation (SPC)

In 1988, SPC achieved record net income of $292 million including an extraordinary gain of $172 million from the sale of underutilized gas reserves to Saskatchewan Oil and Gas Corporation (Saskoil). Sales proceeds were used to retire high coupon debt. As a result the Corporation's overall debt load has decreased for the first time since the early 1970's. Lower debt and higher earnings significantly improved the Corporation's financial condition in 1988 with the debt-to-equity ratio declining to a more manageable level in 1988.

Consolidated revenues for the year totalled $910 million or 5.4 per cent higher than 1987. Electrical revenues increased by 13.1 per cent. Gas revenues, however, were 2.6 per cent lower due mainly to abnormally warm weather during most of the 1988 heating season. Consolidated expenses of $788 million, including finance charges, were 4.7 per cent lower than 1987. Lower finance charges more than offset the higher cost of generating electricity caused by the abnormally low river flows. Capital expenditures totalling $315 million were mainly funded from the highly successful Power Plus Bonds Issue. More than 42 thousand Saskatchewan residents purchased the bonds totalling $296 million of which 43 per cent can be exchanged for Saskoil common shares.

SPC continued during the current year to provide efficient, reliable and economical service. The Corporation's Rural Underground Distribution program which is designed to replace aging rural overhead lines with more reliable underground electrical service was in its fourth year in 1988. The Saskatchewan Natural Gas Distribution program also continued during 1988 providing natural gas to SPC's rural Saskatchewan customers.

### Saskatchewan Telecommunications (SaskTel)

SaskTel's strong financial performance in 1988 resulted in record net earnings of $70.1 million. This was due to cost reduction measures combined with the continued streamlining of operations and increased revenues. Careful management of the Corporation's resources has allowed SaskTel to improve the quality of customer services and to generate new business growth while keeping expenditures down.

Two of the largest projects ever undertaken by SaskTel were well under way in 1988 - the $264 million Rural Individual Line Service program and a related $128 million Digital Switching Upgrading program. Under a third program, an additional $146 million is being invested in a network conversion program which will upgrade the remaining central offices and connecting transmission facilities to digital operation by 1995. Another $3.2 million will be invested to provide individual line service to 43 small communities across northern Saskatchewan. Twelve of these communities currently do not have telephone service. The program will be completed by 1995.

The emergence of a new well-defined strategy for business, the benefit of a skilled workforce, and the use of modern technologies to increase productivity, have made it possible for SaskTel to respond more quickly and efficiently to traditional as well as new customer demands. At the end of 1988, SaskTel had 747 thousand telephones in service. Customers placed 125.8 million long distance calls during the year, compared to 117.2 million in 1987.

**Saskatchewan Water Corporation (Sask Water)**

Sask Water is both a regional water supply utility and the water management agency for the Province with the responsibility to manage, develop and protect in the public interest, the water resources of Saskatchewan.

The Corporation represents an innovative approach to water management in North America. From its Moose Jaw Head Office and decentralized regional and branch offices in nine other communities, Sask Water administers a broad variety of water related development programs and provides comprehensive water management services in the Province.

In 1988, Sask Water earned $1.3 million on revenue of $39.7 million. The Corporation receives an annual grant from the Province to fund various water management programs.

An important component of Sask Water's activity in 1988 was a $9.6 million drought mitigation and long-term drought proofing program to address serious drought conditions across the Province.

**Saskatchewan Computer Utility Corporation (SaskCOMP)**

Westbridge Computer Corporation (Westbridge) was formed on February 24, 1988 by a merger of SaskCOMP, The Mercury Group, Leasecorp Western Limited, and the computer services and data terminal divisions of Saskatchewan Telecommunications. Westbridge is a value-added computer company, one of the largest in Canada. The range of services offered by Westbridge consists primarily of hardware and software sales, customer support, consulting, maintenance, training, and financing programs. The new company will be well equipped to meet the needs of the changing market since it offers a range of diversified products to a wide number of users.

## FINANCIAL AND SERVICE CORPORATIONS

**Saskatchewan Government Insurance (SGI)**

SGI is a competitive property and casualty insurer offering a comprehensive line of insurance products and services to homes, farms and businesses in Saskatchewan. SGI also offers optional extended automobile insurance protection and coverage beyond the basic compulsory package provided through the Saskatchewan Auto Fund (SaskAuto). All competitive insurance is offered through SGI's sales force of 420 independent agents and brokers.

1988 was SGI's best year ever. Profits on its general insurance operations totalled $19.8 million, and marked the third consecutive year of profits. 1988 performance exceeded the 1987 profit of $11.5 million and was largely attributable to claims cost control and a careful underwriting and business strategy.

SGI also administers SaskAuto on behalf of the Province of Saskatchewan. SaskAuto provides compulsory automobile insurance for all vehicles registered in Saskatchewan.

**Saskatchewan Economic Development Corporation (SEDCO)**

SEDCO's major objective is to promote and facilitate economic development and diversification for viable Saskatchewan companies, by providing a wide range of financial and property services. These include short and long term loans, property leases and sales of commercial and industrial properties. In 1988, the Corporation assisted in the creation of approximately 460 new jobs with an estimated wage value of $11 million. Activities initiated in prior years continue to produce benefits, maintaining an additional 2,100 jobs, $47 million in wages and $3 million in provincial tax revenues in 1988. SEDCO's loss in 1988 was $8.9 million.

**Saskatchewan Development Fund Corporation (SDFC)**

SDFC was established in 1974 under **The Saskatchewan Development Fund Act** to perform the duties of trustee, custodian and manager for the Saskatchewan Development Fund, an open-end investment trust. In 1976, SDFC expanded its operations to include an annuity business which offered several

different types of annuities to the public. SDFC continues to manage the affairs of the Saskatchewan Development Fund although it no longer offers annuities to the public. The Corporation's administration is conducted under the direction of SDFC's Board of Directors through the use of staff and facilities provided by CIC. SDFC reported net income in 1988 of $177 thousand compared to net income in 1987 of $333 thousand. Total assets in 1988 were $20.2 million compared to $22.2 million in 1987.

### Saskatchewan Transportation Company (STC)

STC's intercity bus service operates over 5 million route miles annually, servicing approximately 400 communities and 80 per cent of the Province's population. In many parts of the Province, particularly the rural areas, STC's passenger and parcel express service constitute the only regularly scheduled transportation service. In 1988, STC carried over 648 thousand passengers.

After a five year moratorium, STC adjusted its passenger fares on June 1, 1988. This increase in passenger rates and the growth in express shipments were the major factors in bringing corporate revenues to $14.3 million, up $564 thousand from the previous year. However, rapidly escalating interest expenses, higher fuel costs and increasing agency costs combined to more than offset the gains achieved in revenues. As a result, the $4.8 million loss incurred in 1988, exceeded the loss for 1987 by approximately $500 thousand.

### Agricultural Development Corporation of Saskatchewan (Agdevco)

Agdevco's primary responsibility is to assist in the development of new markets for Saskatchewan agricultural products and to encourage use of Saskatchewan equipment and technology in international projects.

Agdevco's International Division managed a variety of projects related to agricultural management and improvements in Egypt, Sudan, Lesotho, Zambia, Pakistan and China. Agdevco was also a successful bidder on a joint Economic Development Corporation/ Canadian International Development Agency (CIDA) funded dairy processing and cattle project in the Cameroons and became a subcontractor to a Saskatchewan firm on a CIDA funded $9 million agricultural machinery procurement project in Tanzania. Both projects are expected to be underway in 1989. The Corporation's Trade Division continued its efforts to establish the foundation for countertrade. The division increased revenue over last year by approximately $2 million to approximately $5.7 million. This increase was mainly attributable to the importing of textiles. Food items and consumer goods were also imported while specialty crops, livestock and agricultural machinery were exported. Agdevco's loss in 1988 was $1.9 million.

## MAJOR SUBSIDIARIES AND INVESTMENTS

### CIC Industrial Interests Inc. (CIC III)

CIC III is a wholly-owned share capital subsidiary of CIC. During 1988, CIC III was amalgamated with three of its former subsidiary corporations, Secore Computers Inc., Cablecom Corporation and 582188 Saskatchewan Ltd. CIC III was also amalgamated with Meadow Lake Sawmill Ltd. (MLS) which had been a subsidiary of CIC prior to amalgamation. Another subsidiary of CIC III, 148606 Canada Incorporated, an inactive corporation, was dissolved under its incorporating legislation during the year. CIC III also acquired CIC's 15.8 million Saskoil common shares during 1988.

CIC III's investment portfolio at December 31, 1988 included 100 per cent voting interests in Prairie Malt Limited and 586643 Saskatchewan Ltd., 75 per cent voting interest in Saferco Products Inc., 33.8 per cent voting interest in Saskoil and a 15.7 per cent voting interest in IPSCO Inc. CIC III also holds two mortgages on the Cornwall Centre properties located in Regina as well as the Weyerhaeuser Canada Ltd. income debenture.

### Cameco - A Canadian Mining & Energy Corporation (Cameco)

SMDC owns 61.5 per cent of the 10,001,000 issued common shares of Cameco. As described in the SMDC narrative earlier in this report, Cameco was formed in 1988 when it acquired most of SMDC's assets as well as the assets of Eldorado. In addition to common shares, SMDC owns 1 Class B Share which entitles SMDC to vote separately as a class with respect to any proposal to move Cameco's Head Office operations to a location outside Saskatchewan.

Cameco is one of the world's largest uranium mining and processing companies, with over $1.5 billion in assets, including interests in uranium and gold mining ventures in Saskatchewan, and a conversion plant and refinery in Ontario. The Head Office and major

administrative functions of Cameco are located in Saskatoon.

**Westbridge Computer Corporation (Westbridge)**

SaskTel owns 61.1 per cent of the outstanding common shares of Westbridge, a full-service information technology company providing services to its clients in the field of computer information technology. Westbridge was formed on February 24, 1988 through the merger of the assets of SaskCOMP, the data terminal division and data centre of SaskTel, The Mercury Group of corporations, Leasecorp Western and 49 per cent of the shares of Leasecorp Systems. Effective August 31, 1988, Westbridge also acquired Lease Corporation which had previously been involved in the provision of technology leasing to clientele in central and eastern Canada. On December 22, 1988, Westbridge successfully closed a public offering of 1.55 million of its Class A common shares. The share offering was fully subscribed.

**NewGrade Energy Inc. (NewGrade)**

NewGrade was established to construct, own and operate a heavy oil upgrader in Regina. NewGrade's outstanding voting shares are owned 50 per cent by the Province of Saskatchewan through CIC and 50 per cent by Consumers' Co-operative Refineries Limited (CCRL). Construction of the upgrader was substantially completed in 1988 and was essentially on time and on budget. Operation of the plant started in November 1988 and is anticipated to achieve full production capacity in 1989. NewGrade is designed to process 50 thousand barrels per day of Saskatchewan's vast resources of heavy crude oil to provide upgraded crude oil ("Reconstituted Crude") to CCRL as a feedstock to their refinery for processing into refined products. The Reconstituted Crude will meet CCRL's feedstock requirements to produce refined products, including propane, butane, gasoline, diesel fuel and furnace oil as well as anode-grade quality coke as a byproduct. In addition to the permanent employment of 125 people at the upgrader, NewGrade will promote the development of Saskatchewan's oil and gas fields resulting in additional employment for up to 1,000 persons in the related exploration, production and service industries.

**Saskatchewan Oil and Gas Corporation (Saskoil)**

Saskoil is a Saskatchewan based energy company which explores for, develops, produces and markets crude oil and natural gas in western Canada. Prior to December 1985, Saskoil was a provincial Crown corporation operating under **The Saskatchewan Oil and Gas Corporation Act**. In December 1985, Saskoil was continued under **The Saskatchewan Business Corporations Act** and became a share capital corporation.

Saskoil has had several public share issues since December 1985 which have reduced the consolidated group's voting interest in Saskoil to 33.8 per cent as at December 31, 1988.

# CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

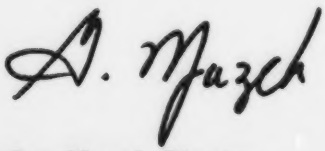
# Consolidated Financial Statements 1988

**Responsibility for Financial Statements**

The management of Crown Investments Corporation of Saskatchewan is responsible for the integrity of the accompanying consolidated financial statements and all other information in this annual report. It is the responsibility of management to prepare financial statements in accordance with generally accepted accounting principles in Canada, applied on a basis consistent with the previous year.

The integrity of the financial records, from which these financial statements are prepared, is largely dependent on the systems of internal accounting controls. The purpose of such systems is to provide reasonable assurance that transactions are executed in accordance with proper authorization, transactions are appropriately recorded in order to permit preparation of financial statements and assets are properly accounted for and safeguarded against loss from unauthorized use. Underlying this concept of reasonable assurance is the fact that limitations exist in any system of internal accounting controls based on the premise that the cost of such controls should not exceed the benefits derived therefrom.

The consolidated financial statements have been audited by the independent firm of Clarkson Gordon, Chartered Accountants. Their report, to the Members of the Legislative Assembly, stating the scope of their examination and opinion on the consolidated financial statements appears on the next page.



Greg Mrazek, Director
Accounting Services

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# Auditors' Report

To the Members of the Legislative Assembly of Saskatchewan

We have examined the consolidated statement of financial position of Crown Investments Corporation of Saskatchewan as at December 31, 1988 and the consolidated statements of operations and reinvested earnings and cash flows for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes in the method of accounting for exploration costs, gas inventories and contributions in aid of construction as described in note 14 to the financial statements, on a basis consistent with that of the preceding year.

Regina, Canada,
April 3, 1989

Clarkson Gordon
Chartered Accountants

# Crown Investments Corporation of Saskatchewan
# Consolidated Statement of Financial Position
**As at December 31**

| | Note Reference | 1988 | 1987 |
|---|---|---|---|
| | | (thousands of dollars) | |
| **Assets** | | | (Note 14) |
| Current | | | |
| Short-term investments | | $ 289,494 | $ 240,832 |
| Accounts receivable | | 329,440 | 384,225 |
| Inventories | | 122,150 | 113,318 |
| Prepaid expenses | | 124,664 | 124,742 |
| | | 865,748 | 863,117 |
| Long-term investments | 3 | 1,538,655 | 882,433 |
| Property, plant and equipment | 4 | 4,768,227 | 5,283,506 |
| Deferred charges | 5 | 102,453 | 143,867 |
| | | $ 7,275,083 | $ 7,172,923 |

(See accompanying notes)

Approved on behalf of the Board:

_____, Director

_____, Director

| | Note Reference | 1988 | 1987 |
|---|---|---|---|
| | | (thousands of dollars) | |
| **Liabilities and Province's Equity** | | | (Note 14) |
| Current | | | |
| Bank indebtedness | | $ 22,379 | $ 104,529 |
| Accounts payable and accrued liabilities | | 493,868 | 500,977 |
| Notes payable | 6 | 114,496 | 743,470 |
| Deferred revenue | | 73,228 | 92,339 |
| Long-term debt due within one year | 7 | 358,774 | 392,313 |
| | | 1,062,745 | 1,833,628 |
| Deferred revenue | 8 | 309,985 | 252,490 |
| Long-term debt | 7 | 4,279,451 | 4,053,506 |
| Province of Saskatchewan's Equity | | | |
| Equity advances | 9 | 900,000 | 747,230 |
| Reinvested earnings | | 722,902 | 286,069 |
| | | 1,622,902 | 1,033,299 |
| | | $ 7,275,083 | $ 7,172,923 |
| Commitments and contingencies | 10 | | |

(See accompanying notes)

# Crown Investments Corporation of Saskatchewan
# Consolidated Statement of Operations and Reinvested Earnings
**For the Year Ended December 31**

| | Note Reference | 1988 | 1987 |
|---|---|---|---|
| | | (thousands of dollars) | |
| | | | (Note 14) |
| **Revenue** | | | |
| Sales of products and services | | $ 1,987,261 | $ 1,907,840 |
| Investment income | | 77,965 | 130,987 |
| Other | | 77,371 | 75,645 |
| | | 2,142,597 | 2,114,472 |
| **Expenses** | | | |
| Operating costs other than those listed below | | 1,106,891 | 1,121,284 |
| Interest | 11 | 485,085 | 520,652 |
| Depreciation and depletion | | 276,322 | 287,575 |
| Saskatchewan taxes and resource payments | 12 | 90,598 | 80,927 |
| | | 1,958,896 | 2,010,438 |
| Income before extraordinary items | | 183,701 | 104,034 |
| Extraordinary items | 13 | 253,132 | - |
| Net income | | 436,833 | 104,034 |
| Reinvested earnings, beginning of year as previously stated | | 398,582 | 294,548 |
| Adjustment of prior year's amounts | 14 | (112,513) | (112,513) |
| As restated | | 286,069 | 182,035 |
| Reinvested earnings, end of year | | $ 722,902 | $ 286,069 |

(See accompanying notes)

# Crown Investments Corporation of Saskatchewan Consolidated Statement of Cash Flows

**For the Year Ended December 31**

| | 1988 | 1987 |
|---|---|---|
| | (thousands of dollars) | |
| | | (Note 14) |
| **Cash Provided by (Used In) Operating Activities** | | |
| Net income before extraordinary items | $ 183,701 | $ 104,034 |
| Add (deduct) non-cash items | | |
| Depreciation and depletion | 276,322 | 287,386 |
| Sinking fund earnings | (48,387) | (47,675) |
| Other non-cash items | 24,977 | 23,029 |
| | 436,613 | 366,774 |
| Net change in non-cash working capital balances related to operations | (15,209) | (98,371) |
| Cash provided by operating activities | 421,404 | 268,403 |
| **Cash Provided by (Used In) Investment Activities** | | |
| Fixed assets - purchases | (565,897) | (442,943) |
| - proceeds on sale | 669,685 | 27,445 |
| Investments - purchases | (395,574) | (186,093) |
| - sales and collections | 73,232 | 108,147 |
| Cash used in investment activities | (218,554) | (493,444) |
| **Cash Provided by (Used In) Financing Activities** | | |
| Long-term debt proceeds | | |
| Province of Saskatchewan | 640,834 | 153,227 |
| Other lenders | 302,822 | 124,684 |
| Long-term debt repayments | | |
| Province of Saskatchewan | (391,484) | (479,937) |
| Other lenders | (228,505) | (125,208) |
| Equity advances from Heritage Fund | 152,770 | - |
| Increase (decrease) in notes payable | (628,974) | 522,813 |
| Increase in deferred revenue | 29,701 | 31,556 |
| (Increase) decrease in deferred financing charges | 2,136 | (24,844) |
| Cash provided by (used in) financing activities | (120,700) | 202,291 |
| **Net Increase (Decrease) in Cash During Year** | 82,150 | (22,750) |
| **Cash Position, Beginning of Year** | (104,529) | (81,779) |
| **Cash Position, End of Year** | $ (22,379) | $ (104,529) |

(See accompanying notes)

# Crown Investments Corporation of Saskatchewan
# Notes to Consolidated Financial Statements
**December 31, 1988**

## 1. Summary of significant accounting policies

The preparation of periodic financial statements involves the use of estimates and approximations as a precise determination of financial data frequently depends upon future events. These consolidated financial statements have been prepared by management within reasonable limits of materiality and within the framework of the accounting policies summarized below:

a) Consolidation principles and basis of presentation

Certain Saskatchewan provincial Crown corporations are subject to Part II of **The Crown Corporations Act, 1978** (the Act). The Act assigns specific financial and other responsibilities regarding these corporations to Crown Investments Corporation of Saskatchewan (CIC). CIC is responsible for the Province's investments in designated commercial Crown corporations. These Crown corporations pay dividends to CIC upon CIC's direction. Due to the significance of these Crown corporations and their relationship to CIC, the presentation of consolidated financial statements, including the accounts of designated Crown corporations, is considered the appropriate basis of presentation of the financial position and operations of CIC. Separate financial statements for each of the undernoted Crown corporations are prepared and submitted annually to the Legislative Assembly.

The following Crown corporations, which do not have share capital, have been designated as subject to Part II of the Act by Order-in-Council 630/84 (amended by 874/84) and their accounts have been consolidated in these financial statements.

Agricultural Development Corporation of Saskatchewan
Potash Corporation of Saskatchewan
Saskatchewan Computer Utility Corporation
Saskatchewan Development Fund Corporation
Saskatchewan Economic Development Corporation
Saskatchewan Forest Products Corporation
Saskatchewan Government Insurance
Saskatchewan Minerals
Saskatchewan Mining Development Corporation
Saskatchewan Power Corporation
Saskatchewan Telecommunications
Saskatchewan Transportation Company
Saskatchewan Water Corporation.

In addition to the Crown corporations listed above, CIC Industrial Interests Inc., a wholly-owned share capital company of CIC, is also consolidated in these financial statements.

As at December 31, 1988 the Corporation owned 61.5 per cent of Cameco - A Canadian Mining & Energy Corporation, 61.1 per cent of Westbridge Computer Corporation and 73.5 per cent of the common shares of Saskatchewan Oil and Gas Corporation (33.8 per cent voting interest) (note 3). The Corporation has formal plans to reduce its investments in these corporations, therefore the investments are accounted for by the equity method.

b) Inventories

Inventories for resale are generally valued at the lower of average production cost and net realizable value. Other supplies inventory are valued at the lower of cost and replacement cost.

c) Investments

Investments maturing within one year are included with current assets and are valued at cost. This valuation approximates their quoted market value.

Long-term investments include shares held in private and public companies plus bonds and debentures.

Investments in shares of companies are recorded at cost except where the Corporation exercises significant influence. Investments where the Corporation exercises significant influence but has less than a controlling interest are accounted for by the equity method. Bonds and debentures are recorded at amortized cost. Where there has been a decline in the value of an investment that is not considered temporary, the investment is written down to net realizable value.

d) Property, plant and equipment

Property, plant and equipment are recorded at cost and include materials, services, direct labour and overhead costs which are readily identifiable with the construction activity or asset acquisition. The cost of funds used to finance the construction of major projects is also included.

The cost of maintenance, repairs and renewals or replacements are charged to operations as incurred. The costs of replacements and improvements which extend productive life are capitalized.

When property, plant or equipment are disposed of or retired, the related costs and accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are reflected in the statement of operations. Saskatchewan Power Corporation applies this general policy only to complete asset units. Saskatchewan Telecommunications includes gains or losses in accumulated depreciation.

Mining development costs are capitalized until a project's technical or economical feasibility is determined. If no future benefit to the Corporation exists the development costs are expensed.

e) Depreciation and depletion

Depreciation is recorded on buildings and improvements as well as machinery and equipment costs primarily on the straight-line basis over the estimated productive life of each asset.

Depletion is recorded on deferred property, exploration and development costs, gas production and gathering systems and mining assets according to the unit-of-production method based on estimated proven recoverable reserves.

f) Deferred charges

Deferred charges include financing charges, pre-operating costs and unamortized differences arising from translation of long-term debt in foreign currencies to Canadian dollars.

Unamortized financing charges applicable to the issue of long-term debt are amortized on a straight-line basis over the respective term of each obligation.

Pre-operating costs are amortized over the estimated useful life of the related assets.

g) Deferred revenue

Non-current deferred revenue includes contributions in aid of construction relating to new service connections. These contributions are classified as non-current deferred revenue and are amortized over the estimated service life of the related asset (note 14).

h) Foreign exchange translation

Monetary items are translated at the rate of exchange in effect at the year end. Revenue and expenses are translated at rates in effect as they occur. Non-monetary items are translated at the exchange rate prevailing at the time of the transaction.

Long-term debt and related accrued interest, payable in foreign currencies, are recorded at exchange rates prevailing at the year end. Where the translation of long-term debt results in a difference from the previously recorded amount (i.e. translation gains and losses), the difference is deferred and amortized on a straight-line basis over the remaining term of the debt.

i) Leases

As lessee, where the Corporation has substantially all of the benefits and risks incident to the ownership of property, plant and equipment, the lease is classified as a capital lease. Property, plant and equipment recorded as capital leases are amortized on a basis similar to other assets in the same depreciation category. All other leases are classified as operating leases and lease payments are expensed as incurred.

## 1. Summary of significant accounting policies (continued)

As lessor, where the Corporation transfers substantially all of the benefits and risks incident to the ownership of the property, plant and equipment to the lessee, the lease is classified as a sales-type lease or direct financing lease. All other leases are classified as operating leases and lease payments are recorded as income.

## 2. Status of Crown Investments Corporation of Saskatchewan

Crown Investments Corporation of Saskatchewan, then named The Government Finance Office, was established by Order-in-Council 535 dated April 2, 1947, and continues under the provisions of **The Crown Corporations Act, 1978**, as Crown Investments Corporation of Saskatchewan. The Corporation is an agent of Her Majesty in Right of the Province of Saskatchewan.

The Corporation is a Provincial Crown corporation and therefore not subject to Federal or Provincial income tax.

## 3. Long-term investments

| | Voting Percentages | 1988 | 1987 |
|---|---|---|---|
| | | (thousands of dollars) | |
| Cameco - A Canadian Mining & Energy Corporation 6,150,615 common shares (Note 13) | 61.5% | $ 522,465 | $ - |
| Saskatchewan Oil and Gas Corporation 28,842,910 common shares | 33.8% | 142,247 | 153,261 |
| NewGrade Energy Inc. Common shares and debentures | 50.0% | 122,713 | 61,833 |
| Westbridge Computer Corporation 4,580,000 common shares (Note 13) | 61.1% | 30,900 | - |
| Other equity investments | | 29,935 | 29,587 |
| Other shareholdings - cost basis | | 62,014 | 53,098 |
| | | 910,274 | 297,779 |
| Bonds and debentures | | 300,208 | 284,592 |
| Loans and notes receivable | | 241,515 | 216,105 |
| Property holdings | | 60,511 | 58,651 |
| Leases receivable | | 26,147 | 25,306 |
| | | $ 1,538,655 | $ 882,433 |

i) The 28,842,910 common shares of Saskatchewan Oil and Gas Corporation (SaskOil) represent 73.48 per cent of SaskOil's common shares outstanding at December 31, 1988. However, 13,000,000 of these common shares are held by a Trustee and are to be used for the exchange feature of the Saskatchewan Power Corporation (SPC) exchangeable bonds (note 7). SPC shall not, under any circumstances, have the right to direct the Trustee to vote these SaskOil shares. As a result the voting percentage of SaskOil is 33.8 per cent. Any of these shares remaining after the exchanges are to be sold by the Trustee to corporations or individuals other than SPC or any related entity.

In addition to shares, the Corporation has warrants to purchase an additional 5 million common shares of SaskOil. The warrants are held by a Trustee and enable the holder of each warrant to purchase one common share of SaskOil at $11.00. The warrants are held for the benefit of SPC and can only be issued to corporations or individuals other than SPC or a related entity.

ii) CIC has agreed to provide funding to NewGrade Energy Inc. (NewGrade), to a maximum of $158 million and under certain circumstances a further amount not to exceed $62.5 million, for the purpose of assisting NewGrade in the construction of a heavy oil upgrader. To December 31, 1988, CIC had made investments in NewGrade of $122.7 million. CIC has pledged all of the securities purchased from NewGrade as collateral security for NewGrade's loans. In addition, the Province of Saskatchewan has guaranteed indebtedness of NewGrade to a maximum of $360 million.

iii) Included in bonds and debentures is an income debenture from Weyerhaeuser Canada Ltd. Interest is earned and principal collected according to cash flow formulas. Interest is being recognized in income as it becomes receivable in accordance with the cash flow formulas.

iv) In 1988 earnings from equity investments amounted to $12.5 million (1987- $15.8 million).

## 4. Property, plant and equipment

| | 1988 | 1987 |
|---|---|---|
| | (thousands of dollars) | |
| Machinery & equipment | $ 4,952,286 | $ 5,157,343 |
| Buildings & improvements | 938,439 | 920,497 |
| Plant under construction | 252,442 | 126,136 |
| Deferred development costs | 217,245 | 787,837 |
| Capital leases | 108,279 | 115,189 |
| Land | 103,526 | 108,214 |
| | 6,572,217 | 7,215,216 |
| Accumulated depreciation and depletion | 1,803,990 | 1,931,710 |
| | $ 4,768,227 | $ 5,283,506 |

## 5. Deferred charges

| | 1988 | 1987 |
|---|---|---|
| | (thousands of dollars) | |
| Deferred financing charges | $ 41,631 | $ 44,062 |
| Pre-operating costs | 13,515 | 24,057 |
| Deferred foreign exchange translation losses | 4,782 | 66,435 |
| Other deferred charges | 42,525 | 9,313 |
| | $ 102,453 | $ 143,867 |

## 6. Notes payable

Notes payable include $103 million (1987 - $670 million) due to the Province of Saskatchewan's Consolidated Fund. These notes are primarily interest-bearing having an average annual interest rate of 10.94 per cent (1987 - 8.79 per cent).

## 7. Long-term debt

| Years to Maturity | 1988 Principal Outstanding U.S. Dollars | 1988 Principal Outstanding Canadian Dollars | 1988 Average Interest Rate | 1987 Principal Outstanding | 1987 Average Interest Rate |
|---|---|---|---|---|---|
| | | (thousands of dollars) | | | |
| **A. Province of Saskatchewan** | | | | | |
| Canadian Dollar Issues | | | | | |
| 1 - 5 years | | $ 873,133 | 7.67 | $ 607,422 | 7.74 |
| 6 - 10 years | | 325,310 | 8.96 | 299,053 | 8.75 |
| 11 - 15 years | | 938,312 | 10.91 | 537,166 | 9.95 |
| 16 - 20 years | | 698,523 | 10.63 | 1,078,132 | 11.04 |
| 21 - 25 years | | - | - | 50,000 | 9.00 |
| | | 2,835,278 | | 2,571,773 | |
| United States Dollar Issues | | | | | |
| 1 - 5 years | $ 1,040,302 | 1,309,607 | 10.28 | 1,402,290 | 11.37 |
| 6 - 10 years | - | - | - | - | - |
| 11 - 15 years | - | - | - | - | - |
| 16 - 20 years | 354,593 | 422,853 | 8.86 | 324,825 | 8.66 |
| 21 - 25 years | - | - | - | 162,412 | 9.25 |
| | 1,394,895 | 1,732,460 | | 1,889,527 | |
| | | 4,567,738 | | 4,461,300 | |
| Less sinking fund balance | | (404,643) | | (431,156) | |
| **TOTAL DUE TO PROVINCE OF SASKATCHEWAN** | | 4,163,095 | | 4,030,144 | |
| **B. Other long-term debt** | | | | | |
| Saskatchewan Power Corporation Savings Bonds (due 1989 to 1991) | | 349,289 | 8.5-9.25 | 278,136 | 8.5-9.5 |
| Capital lease obligations (Note 15) | | 100,064 | Various | 108,427 | Various |
| Other (due 1989 to 2013) | | 25,777 | Various | 29,112 | Various |
| **TOTAL OTHER LONG-TERM DEBT** | | 475,130 | | 415,675 | |
| | | 4,638,225 | | 4,445,819 | |
| Less due within one year | | (358,774) | | (392,313) | |
| **TOTAL LONG-TERM DEBT** | $ 1,394,895 | $ 4,279,451 | | $ 4,053,506 | |

There is a requirement, attached to certain interest-bearing issues from the Province of Saskatchewan, to make annual payments to the Province in amounts representing one per cent to three per cent of the original issue. These annual payments are invested by the Province with the cumulative aggregate being available for the retirement of the issues on their maturity dates and are noted above as sinking fund balance.

Certain issues received from the Province of Saskatchewan in the amount of $828 million (1987 - $759 million) require that the issues be subject to redemption on six months notice.

The interest rate on the Saskatchewan Power Corporation Savings Bonds can be increased at the discretion of the Minister of Finance of the Province. The bonds are subject to redemption semi-annually until maturity at the option of the bondholder.

Saskatchewan Power Corporation Savings Bonds Series VE, in the amount of $127 million issued in 1988, are exchangeable, at the option of the holder, at any time after December 20, 1988 and prior to maturity in 1991, for 9.5 common shares of SaskOil per $100 principal amount of Exchangeable Bond (note 3). Bondholders exercising the exchange privilege before July 6, 1989 will receive one additional common share per $100 principal amount.

During 1988 the Corporation entered into hedging agreements with the Province's Consolidated Fund which effectively fixed the settlement price of United States dollar loans totalling $185 million U.S. into $226 million Canadian dollars. The related U.S. dollar interest payments were also hedged into Canadian dollars.

Also during 1988 the Corporation completed several cross currency swap agreements with the Consolidated Fund which effectively fixed the settlement price of United States dollar loans totalling $500 million U.S. into Canadian dollars. The related U.S. dollar interest payments were also swapped into Canadian dollars. As a result of the swaps the average interest rate on the loans (including the effect of related exchange gains) was reduced to 7.77 per cent.

Sinking fund and debt retirement requirements for the next five years are as follows (thousands of dollars):

**1989 - $358,774**
**1990 - $246,975**
**1991 - $716,975**
**1992 - $ 85,648**
**1993 - $408,339**

Long-term debt payable in United States dollars (excluding debt subject to cross currency swaps and hedging agreements) has been translated into Canadian dollars at an average year-end exchange rate of 1.193 (1987-1.299).

## 8. Deferred revenue

| | 1988 | 1987 |
|---|---|---|
| | (thousands of dollars) | |
| Contributions in aid of construction | $ 198,981 | $ 147,896 |
| Deferred grant revenue | 25,895 | 8,241 |
| Unamortized foreign exchange gains | 20,975 | 24,463 |
| Other | 64,134 | 71,890 |
| | $ 309,985 | $ 252,490 |

## 9. Province of Saskatchewan's equity

Equity advances received from the Saskatchewan Heritage Fund are non-interest bearing and are repayable at the discretion of the Province.

## 10. Commitments and contingencies

CIC and its consolidated corporations had the following significant commitments and contingencies as at December 31, 1988:

a) Forward purchase commitments of $1,543 million for natural gas and $1,924 million for coal contracted for future minimum deliveries valued at current prices.

## 10. Commitments and contingencies (continued)

b) Capital expenditure commitments for approximately $509 million.

c) Commitment to provide funds for certain construction works. The estimated cost of the works is $120 million and the Corporation's share is expected to be $48 million.

d) Contingent liability as endorser of certain promissory notes due in 2003. In addition, there is a contingent liability for lease payments on certain leased mining equipment. The lease expires in 2005. The total amount of these contingencies is $95 million.

e) Unconditional guarantee of certain indebtedness incurred by an investee corporation under the terms of a lease. The liability under the guarantee is limited to $65 million.

f) The Corporation is the defendant to several unresolved statements of claim. The Corporation has provided in its accounts for these claims in accordance with the advice received from legal counsel. The Corporation intends to account for any differences which may arise, between amounts provided and amounts expended, in the period in which the claims are resolved.

## 11. Interest expense

| | 1988 | 1987 |
|---|---|---|
| | (thousands of dollars) | |
| Interest on long-term debt | $ 531,301 | $ 573,879 |
| Amortization of foreign exchange (gains) and losses | (25,096) | 834 |
| Amortization of deferred financing costs | 9,433 | 4,684 |
| | 515,638 | 579,397 |
| Less | | |
| Sinking fund earnings | 48,387 | 47,675 |
| Interest capitalized | 20,179 | 52,229 |
| | 68,566 | 99,904 |
| Long-term debt interest expense | 447,072 | 479,493 |
| Short-term debt interest expense | 38,013 | 41,159 |
| | $ 485,085 | $ 520,652 |

## 12. Saskatchewan taxes and resource payments

| | 1988 | 1987 |
|---|---|---|
| | (thousands of dollars) | |
| Resource royalties and payments | | |
| Oil, gas and coal royalties | $ 18,072 | $ 17,305 |
| Potash royalties and payments | 15,820 | 10,599 |
| Uranium royalties | 4,310 | 5,273 |
| Timber dues | 1,522 | 1,649 |
| Sodium sulphate royalties | 51 | 543 |
| | 39,775 | 35,369 |
| Grants in lieu of taxes to municipalities | 29,670 | 26,279 |
| Capital tax | 17,983 | 13,048 |
| Insurance premium tax | 5,217 | 5,347 |
| Other | 1,303 | 2,206 |
| Total paid or payable | 93,948 | 82,249 |
| Less inventoried and capitalized | (3,350) | (1,322) |
| | $ 90,598 | $ 80,927 |

Saskatchewan taxes and resource payments as stated above do not include Saskatchewan Education and Health Tax payments.

## 13. Extraordinary items

Extraordinary items include the following (in thousands):

| | |
|---|---|
| Gain on share issue (Cameco) | $ 206,039 |
| Gain on sale of assets to SaskOil | 45,442 |
| Gain on share issue (Westbridge Computer Corporation) | 9,243 |
| Loss on sale of peat moss and sodium sulphate assets | (5,032) |
| Other items | (2,560) |
| Total extraordinary items | $ 253,132 |

a) On October 5, 1988, certain operating assets were sold to Cameco - A Canadian Mining & Energy Corporation (Cameco). Consideration was based on the estimated fair value of the assets sold and consisted of a promissory note and common shares (representing a 61.5 per cent voting interest). Also on October 5, 1988, Cameco purchased substantially all of the operating assets of Eldorado Nuclear Limited (ENL) for consideration of promissory notes and common shares of Cameco (representing a 38.5 per cent voting interest).

As a result of owning the majority interest in Cameco (61.5 per cent), the assets and operations were transferred to Cameco on a continuity of interest basis whereby the consideration received from Cameco was recorded at amounts equal to the carrying value of the assets transferred to Cameco.

The net assets transferred to Cameco had a carrying value of $830 million. Consideration received from Cameco had an estimated fair value of $1.1 billion. The promissory notes of $360 million were collected on December 29, 1988. As at December 31, 1988 the common shares had a carrying value of $522.5 million (note 3).

The net assets acquired by Cameco from ENL were recorded by Cameco at fair value. The issue of shares to ENL by Cameco and the recording of assets purchased at fair value resulted in a gain of $206 million.

## 13. Extraordinary items (continued)

b) Certain interests in petroleum and natural gas properties and related equipment were sold to Saskatchewan Oil and Gas Corporation (SaskOil) effective May 1, 1988 which resulted in a gain on a consolidated basis of $45 million.

c) Effective February 24, 1988, through a series of transactions, certain assets were sold to Westbridge Computer Corporation (Westbridge). Consideration was in the form of promissory notes and common shares representing 80 per cent of Westbridge's voting shares. Also on February 24, 1988 Westbridge purchased shares of certain private sector corporations.

As a result of owning the majority interest (80 per cent) in Westbridge the assets and operations were transferred to Westbridge on a continuity of interest basis, whereby the consideration received was recorded at amounts equal to the carrying value of assets transferred to Westbridge.

The net assets transferred to Westbridge had a carrying value of $24.7 million. Consideration received from Westbridge had an estimated fair value of $51 million.

The net assets acquired by Westbridge from the private sector corporations were recorded by Westbridge at fair value. Subsequent to the initial transactions noted above, there were other asset purchases and share issues by Westbridge which reduced ownership from 80 per cent to 61 per cent. These issues of shares by Westbridge and the recording of the assets purchased at fair value resulted in a gain of $9.2 million.

d) During 1988, peat moss operations were sold to Premier Sask Inc. and sodium sulphate operations were sold to Kam-Kotia Mines Limited.

The sales prices exceeded appraised values, however, losses on the sale of the peat moss and sodium sulphate operations were as follows (in thousands):

| | |
|---|---|
| Peat moss operation | $ 461 |
| Sodium sulphate operation | 4,571 |
| | $ 5,032 |

e) Other extraordinary items include a litigation settlement and closedown costs on certain operations.

## 14. Adjustments of prior year's amounts

Adjustments of prior year's amounts are as follows (in thousands):

| | |
|---|---|
| Change in accounting policy for deferred exploration and development expenses | $ (163,278) |
| Change in accounting policy for customer contributions and gas inventories | 50,765 |
| Total | $ (112,513) |

a) During 1988, Cameco (note 13) adopted the policy of expensing exploration project costs as incurred. This change in the method of accounting for exploration costs was applied retroactively by Cameco and accordingly was also applied retroactively in these consolidated financial statements. The effect on the financial statements was to decrease net earnings by $8.5 million (1987 - NIL) and to decrease 1987 property, plant, and equipment and reinvested earnings by $163.3 million.

b) Prior to 1988, contributions received from customers of Saskatchewan Power Corporation for new service connections were accounted for either as deferred income or included in equity, depending on the nature of the connection and the estimated revenues and costs of service for the connections. In 1988, the method of accounting for contributions received was changed so that all contributions were classified as deferred income and amortized over the estimated service life of the related asset. The effect of this change for 1987 was to increase deferred revenue by $100 million, increase reinvested earnings by $44 million, and decrease contributed surplus by $144 million.

Gas inventories were previously accounted for on a first in-first out basis. In 1988 the accounting policy was changed retroactively whereby inventories were recorded at average cost. 1987 gas inventories of $34 million formerly included in deferred charges have been reclassified as current assets.

There was no effect on 1987 net income as a result of these changes.

c) Other amounts have been reclassified to conform with the current year's presentation.

## 15. Leases

a) The Corporation, as lessee, has entered into capital leases whereby substantially all of the benefits and risks of ownership have been transferred to the Corporation from the lessor. Commitment information related to these leases is as follows:

| | 1988 | 1987 |
|---|---|---|
| | (thousands of dollars) | |
| Future minimum lease payments | | |
| 1988 | $ - | $ 18,756 |
| 1989 | 16,945 | 18,418 |
| 1990 | 16,933 | 17,721 |
| 1991 | 16,930 | 17,359 |
| 1992 | 16,871 | 16,889 |
| 1993 | 16,859 | |
| Thereafter | 97,490 | 09,005 |
| Total minimum lease payments | 182,028 | 198,148 |
| Less amount representing interest and executory costs | (81,964) | (89,721) |
| Balance of obligation | 100,064 | 108,427 |
| Less current portion | (4,953) | (5,905) |
| | $ 95,111 | $ 102,522 |

b) All other leases entered into by the Corporation, as lessee, were operating leases with future minimum lease payments as follows (thousands of dollars):

| | |
|---|---|
| 1989 | $ 14,399 |
| 1990 | 9,557 |
| 1991 | 6,948 |
| 1992 | 6,237 |
| 1993 | 3,559 |
| Thereafter | 18,870 |
| | $ 59,570 |

## 16. Related party transactions

Included in these consolidated financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and non-Part II Crown corporations with which the Corporation is related. Account balances resulting from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the consolidated financial statements.

During 1988, Saskatchewan Water Corporation received $33 million (1987-$25.5 million) in grants from the Consolidated Fund.

As at December 31, 1988, $118 million was invested at interest with the Consolidated Fund and is included in short-term investments.

## 17. Pensions

Substantially all employees of the Corporations included in these financial statements are participants in either defined contribution or defined benefit pension plans.

Based on the latest actuarial valuations, the present value of the accrued pension benefits of the defined benefit pension plans is $707 million which approximates the estimated market value of the pension funds' assets.

# CROWN MANAGEMENT BOARD OF SASKATCHEWAN

Crown Investments Corporation
of Saskatchewan
2400 College Avenue
REGINA, Saskatchewan
S4P 1C8

Inquiry No. (306) 787-6851
Chairman: Mr. Wolfgang Wolff, F.C.A.
President: Mr. William B. Gibson

**Resource Corporations**

Potash Corporation of Saskatchewan
PCS Tower
Ste. 500
122 - 1st Avenue South
SASKATOON, Saskatchewan
S7K 7G3

Inquiry No. (306) 933-8500
Chairman: Mr. Paul J. Schoenhals
President: Mr. C. E. (Chuck) Childers

Saskatchewan Forest Products
Corporation
P.O. Box 40
HUDSON BAY, Saskatchewan
S0E 0Y0

Inquiry No. (306) 865-2201
Vice-Chairman: Hon. George McLeod
General Manager: Mr. Douglas L. Barclay

**Utility Corporations**

Saskatchewan Power Corporation
2025 Victoria Avenue
REGINA, Saskatchewan
S4P 0S1

Inquiry No. (306) 566-2121
Chairman: Mr. Donald Stankov
President: Mr. George D. Hill, Q.C.

Saskatchewan Telecommunications
2121 Saskatchewan Drive
REGINA, Saskatchewan
S4P 3Y2

Inquiry No. (306) 777-3737
Chairman: Mr. Garth C. Kennedy
President: Mr. James Coombs

Saskatchewan Water Corporation
Victoria Place
111 Fairford Street East
MOOSE JAW, Saskatchewan
S6H 7X9

Inquiry No. (306) 694-3900
Chairman: Hon. Herb Swan
President: Mr. Vern C. Fowke, F.C.A.

**Financial and Service Corporations**

Saskatchewan Government Insurance
2260 - 11th Avenue
REGINA, Saskatchewan
S4P 0J9

Inquiry No. (306) 565-1200
Chairman: Mr. Allan W. Wagar
President: Mr. Alex Wilde

Saskatchewan Economic Development
Corporation
1106 Winnipeg Street
REGINA, Saskatchewan
S4R 1J6

Inquiry No. (306) 787-7200
Chairman: Mr. Larry A. Kyle, Q.C.
President: Mr. Douglas S. Price

Saskatchewan Development Fund
Corporation
Ste. 300 - 2400 College Avenue
REGINA, Saskatchewan
S4P 1C8

Inquiry No. (306) 787-1645
Chairman: Mr. Allan McDougall, F.C.S.I.
General Manager: Mr. William B. Gibson

Saskatchewan Transportation Company
2041 Hamilton Street
REGINA, Saskatchewan
S4P 2E2

Inquiry No. (306) 787-3353
Chairman: Hon. Grant Hodgins
President: Mr. Don Castle

Agricultural Development Corporation
of Saskatchewan
Trade and Convention Centre
1100 - 1919 Saskatchewan Drive
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Inquiry No. (306) 787-5035
Chairman: Hon. Eric A. Berntson
President: Mr. Bruce Hanson